



## OFFICE OF AUDITOR OF STATE STATE OF IOWA

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Good morning. Over the past 24 years, the State Auditor's Office has built a reputation of being the independent "Watchdog" for the taxpayers of Iowa. As I promised during the campaign, I will carry on, and build upon this watchdog role. I am extremely pleased to have the opportunity as Iowa's State Auditor to provide the taxpayers of Iowa with my first of many informal briefings. Today's informal briefing will focus on the Fiscal Year 2004 budget recommendations.

### **Good Budgeting Principles**

I must say, it was "welcome news" to see the good budgeting principles endorsed by the Iowa Taxpayers' Association referenced to in the Fiscal Year 2004 budget recommendations. These principles are a good place to start, and provide a framework against which we can evaluate the budget. It is the implementation of these principles, however, that is the key to improved financial decisions. Let me begin, however, by adding two more principles in addition to those principles cited in the budget recommendations. I believe these principles are critical components to sound financial management and that these are missing from the Fiscal Year 2004 proposed budget. The first additional principle is "a longer-range focus" and the second additional principle is "clarity."

### **Longer-Range Focus**

Let's talk about "a longer-range focus" principle first. Currently there is no cohesive, easily understood mechanism in the budget document that informs the Executive and Legislative branches nor the taxpayers of Iowa of the long-term financial ramifications of the various budget proposals being considered. That means current fiscal year budget decisions can be made without appropriately considering the financial impact those decisions will have on future fiscal years. When the primary focus is on a single year budget, it is very easy to shift financial burdens to future years – a shift that does not receive the careful, thoughtful process any such financial burden shift should generate. A longer-range perspective is needed in our budgeting and fiscal planning process. By incorporating longer-term financial projections into the proposed budget document, a comprehensive document can be created that readily reflects the multi-year financial impacts of the proposed current fiscal year budget. A longer-range budgeting focus, we will increase the extent to which our future financial condition is considered in the current year budgeting and appropriations process.

## **Clarity**

The second additional budgeting principle is “clarity.” The Fiscal Year 2004 budget recommendations could be enhanced by additional information. So many times, there are transfers of certain revenues, or shifts of certain expenditures from one source to another in one budget year but not another. When this happens, it makes the comparison of fiscal years virtually impossible – it is like comparing apples and oranges. The only way to appropriately make valid comparisons that aid in the decision-making process is to bring clarity to the budgeting process.

Clarity is needed in how the information is presented, and the level of detail that is presented. To appropriately make general fund comparisons, the budget document should readily provide a detailed line item analysis of all proposed revenue transfers, including a comparison to all prior year revenue transfers. It is also critical that the budget document provide a summary of what I call “true total general fund expenditures.” By that I mean not only those expenditures that are being funded with general fund revenues and revenue transfers, but also those general fund expenditures that are being shifted to non-general fund resources. That way, the true total costs of the general fund - regardless of where those expenditures might be shifted from year to year - are presented in an easy, understandable format.

And finally, all budget item recommendations should include the details that are needed to evaluate the recommendation. For example, the budget recommendation for “reinvention” savings should be accompanied by the specific changes proposed to create the savings, the assumptions used, and the actions required to implement. All these details are needed to evaluate the reasonableness of the budget recommendation. By enhancing the clarity of the proposed budget document it provides the type of comprehensive information that is so vital to making good, sound financial decisions.

## **Concerns**

As I reviewed the Fiscal Year 2004 budget recommendations using good budgeting principles, I found two areas of concern: (1) reliance on one-time and limited-time resources, and (2) lack of focus on the impact of the current fiscal year (Fiscal Year 2003) decisions and Fiscal Year 2004 recommendations.

First, reliance on limited-time resources. The budget recommendation emphasizes, “A reduction of reliance on one-time transfers from other funds to the General Fund revenues and operations from \$211.1 million in Fiscal Year 2003 to \$64 million in Fiscal Year 2004.” While there is a reduced reliance on one-time transfers, I have a great concern about the extent of reliance on other one-time and limited-time revenue sources for general fund expenditures. Examples of that reliance include:

- Over \$130 million for Medicaid expenditures shifted to the Senior Living Trust Fund - a fund where additional revenues are expected to cease after the first quarter of Fiscal Year 2004
- A \$47 million transfer from the Cash Reserve Fund
- A \$25 million revenue adjustment from a change in the time period insurance companies can hold unclaimed demutualization proceeds

- Approximately \$8 million of interest earnings deposited in the General Fund through the use of an appropriations practice that utilizes the “notwithstanding” technique – a technique used to override other financial requirements. For example “notwithstanding” has been used to override the requirement that interest on moneys deposited in the Cash Reserve Fund and the Economic Emergency Fund be credited to the Rebuild Iowa Infrastructure Fund. By “notwithstanding” that requirement the interest earnings are credited to the General Fund.

These examples total almost \$210 million of additional reliance on other sources for general fund expenditures. When added to the \$64 million of transfers spelled out in the proposed budget, this puts reliance on limited-time resources at almost 6% of the General Fund budget.

When reliance on other sources is coupled without consideration of the impact of current fiscal year budget decisions and Fiscal Year 2004 recommendations, my concerns increase. In both 2003 and 2004, certain revenues transferred to the General Fund and certain expenditures shifted to other sources have created or will create borrowings that need to be addressed. The Fiscal Year 2004 proposed budget provides no mention of the borrowings created in 2003 or proposed for 2004. These borrowings must be addressed within the budget and considered in the longer-range focus I discussed earlier.

### **Repayment**

Some of the borrowing is required to be repaid by statute, while others should be considered for repayment. Approximately \$400 million from Fiscal Year 2003 alone is required by statute to be repaid to other funds. The budget must not only highlight these borrowings, but also include a recommended repayment plan. Incorporation of these repayment expenditures into the longer-range budget is critical to replenishing the non-general funds and to factoring the repayment obligations into future year General Fund appropriations. In addition, to the extent it is decided that any amounts borrowed from other funds will not be repaid, the funds impacted and the related dollar amounts should be reported. The taxpayers of Iowa deserve to be informed of all such intended actions that impact resources that were accumulated for other purposes but were shifted to general fund expenditures without repayment. I will be reporting back to the taxpayers of Iowa in a few weeks with an accounting of those General Fund obligations.

## **Briefing Summary**

Tuesday, February 18, 2003

### **Additional Budget Principles**

- Long-range planning
- Clarity in the budget process

### **Budget Concerns**

- Use of one-time/limited time resources

#### Examples:

- Senior Living Trust Fund \$130 million
- Cash Reserve Fund \$47 million
- proceeds
- Rebuild Iowa Infrastructure Fund \$8 million

- No repayment plan to replenish funds borrowed or transferred

- Amounts borrowed or transferred

#### Examples:

- FY 2003, approximately \$400 million
- FY 2004, approximately \$250 million